



**GREATER CHARLOTTETOWN AREA
CHAMBER OF COMMERCE**

*Province of Prince Edward Island
2009 Budget Consultations*

**Submitted to Honourable Wesley J. Sheridan
Provincial Treasurer**



1. Introduction

The Chamber again welcomes this opportunity to provide commentary and recommendations prior to the development of the Province's 2009 Budget. Your reception and attention to our concerns and recommendations is much appreciated. The Greater Charlottetown Chamber of Commerce represents the interests of close to 900 members, employing almost 15,000. The Chamber is a strong advocate of business and commercial interests, with a heritage that goes back to 1887. Our members are the lifeblood of the private sector economy in the greater Charlottetown area, an area that contributes a sizable portion to the provincial GDP.

The Chamber, this year, requests written feedback providing your reaction to our submission. Although we hope our past submissions have had a positive effect on your deliberations, without written feedback we have had no assurance of this. Provision of written feedback would enhance the integrity and accountability of the pre-budget consultation process.

2. The Economic and Fiscal Environment

To say the least, the global financial events of the past year or so are unprecedented. According to a recent Monetary Report of the Bank of Canada, "the global financial turmoil that began in the late summer of 2007 has worsened in the past two months to become the deepest, broadest, and most persistent financial crisis in decades." The Bank is predicting a mild global recession, mainly because of the situation in the US. Canada's GDP growth for 2008 and 2009 is expected to be marginal at .6%. How the Island's economy will be affected by the liquidity and credit crisis is unknown. Needless to say, the Chamber expects both the Provincial Government and the local business community to face some serious challenges over the next 12 months.

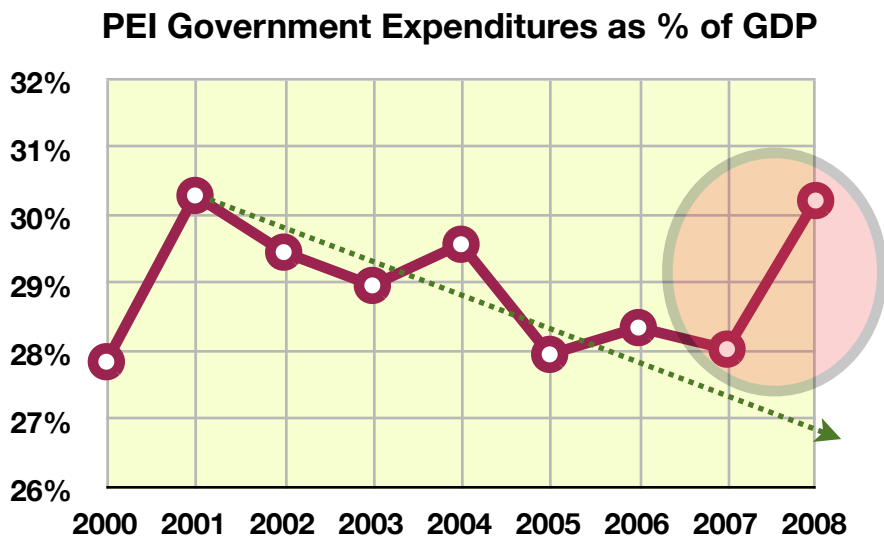
While the Provincial Government has some leeway to incur deficits, this budgetary leeway is subject to certain realities. Deficit spending, while it may stimulate the provincial economy, helping to offset the impacts of a recession, drives up the net debt of the Province with serious implications for future debt service costs. Of course, as debt service rises, program flexibility decreases.

While Prince Edward Island's estimated 2008 net debt compares favourably with other provinces as shown below, growth in debt is worrisome given the Province's limited revenue raising capacity and current tax rates.

Provinces receiving equalization (09)	Net Debt Per Capita (08)	Net Debt as a % of GDP (08)
PE	\$9,912	30.2
NS	\$13,192	37.1
NB	\$9,359	26.4
QC	\$16,003	41.3
ON	\$11,165	24.5
MB	\$8,741	21.5

Source: http://www.stat.gouv.qc.ca/donstat/econm_finnc/conjn_econm/TSC/pdf/chap13.pdf

Also of concern to the Chamber is the ‘size’ of Provincial Government Expenditures relative to the overall economy. The ratio of Provincial Government Expenditures to GDP has been trending downward since 2001. However, in 2008 the trend reversed and this upward trend probably will continue, given the current state of the economy and deteriorating Provincial Government finances.



3. The Economy - a Synopsis

The following is a brief backdrop to the Chamber's assessment of the recently announced *Island Prosperity - A Focus for Change*. As key players in the provincial economy, our members share in the responsibility for both the good and bad of recent economic performance.

- PEI's Unemployment Rate has been trending downward over the past decade, decreasing from 15 % to 10% - good news.

- Manufacturing shipments have been trending upwards over the same period, increasing by 81% between 1997 and 2007 - good news.

- GDP growth has not been as strong as the Canadian average - between 2002 and 2007, PEI's GDP increased by 22.6% compared to 32.8% for Canada - not good news.

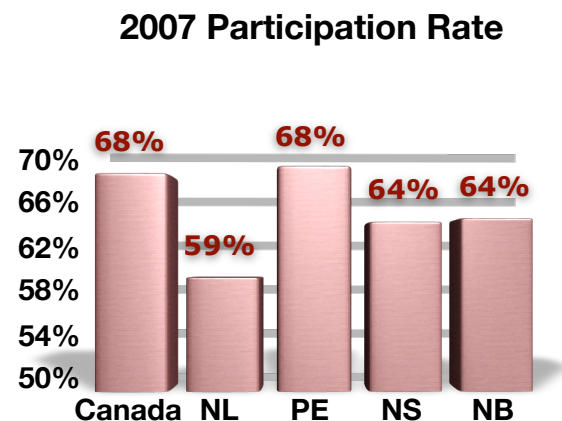
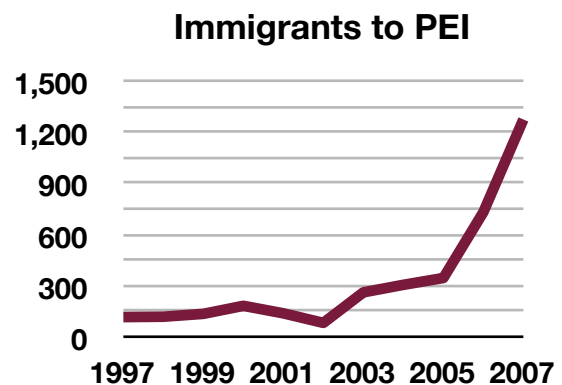
- PEI's GDP per Capita was 73.5% of Canada's in 2002. By 2007, this had fallen to 70.6% - again not good news.

- Immigration is increasing, with sizable gains in 2006 and 2007 - a good sign.

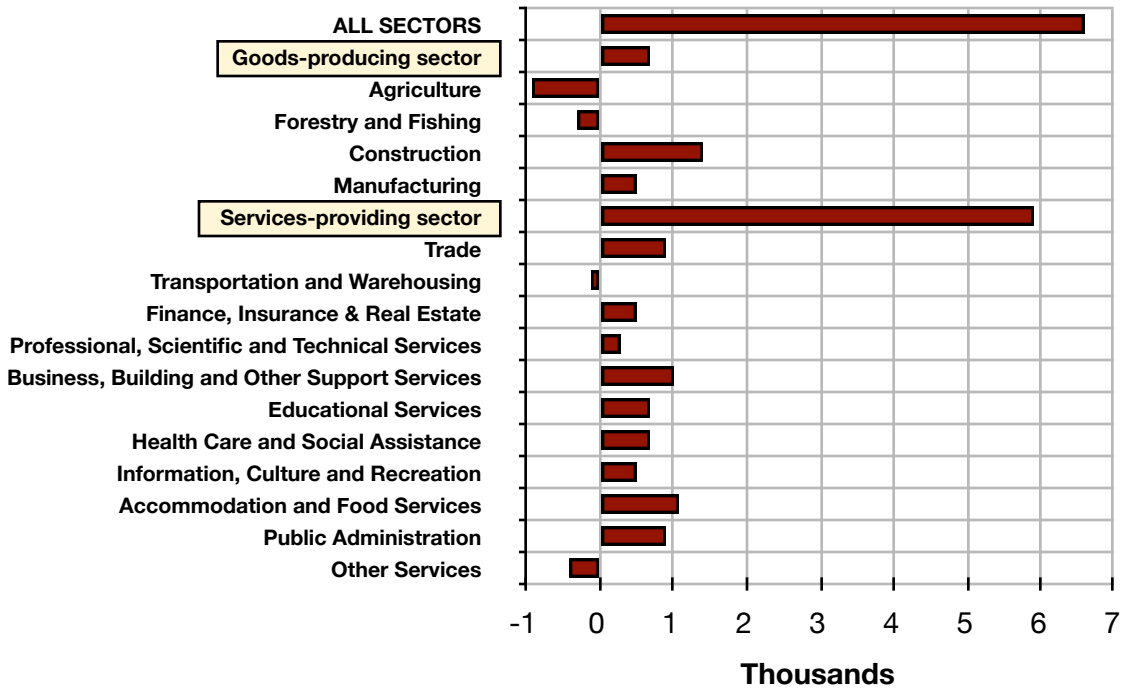
- Retail Sales have been strong the past two years showing a 6.2% increase in 2006 and a 7.7% increase in 2007 - good news.

- PEI's labour force participation rate historically has been well above the other Atlantic Provinces. This probably accounts for the apparent tightness in the PEI labour market despite an unemployment rate of +10%.

- While there have been increases in employment between 2002 and 2007, **90% of the increase has come from the service sector.**



Change in Employment 2002 - 2007



These changes in employment by sector reflect the ongoing transformation in the provincial economy . The primary industries, the backbone of the Island economy for generations, are being replaced as the driver of employment and economic activity. This has ramifications for the Province’s development strategy (*Island Prosperity - A Focus for Change*), immigration policy and the ongoing debates over rural development policies.

The Chamber supports the direction and content of the government’s development strategy as outlined in *Island Prosperity - A Focus for Change*. Indeed, as the document suggests, Prince Edward Island is “at a critical point in its social and economic development”. Without new approaches based on partnerships with the business community, the province will not rise to the challenges outlined in the strategy. While government can stimulate, it cannot implement. Only the private sector has the entrepreneurship and the drive to bring the strategy to fruition. While the strategy document recognizes the need for strong partnerships with the private sector, it is silent on how and when consultative mechanisms will be put in place.

The Chamber offers its assistance in setting up such appropriate mechanisms, drawing on the breadth and depth of its members’ experience.

4. Specific Issues

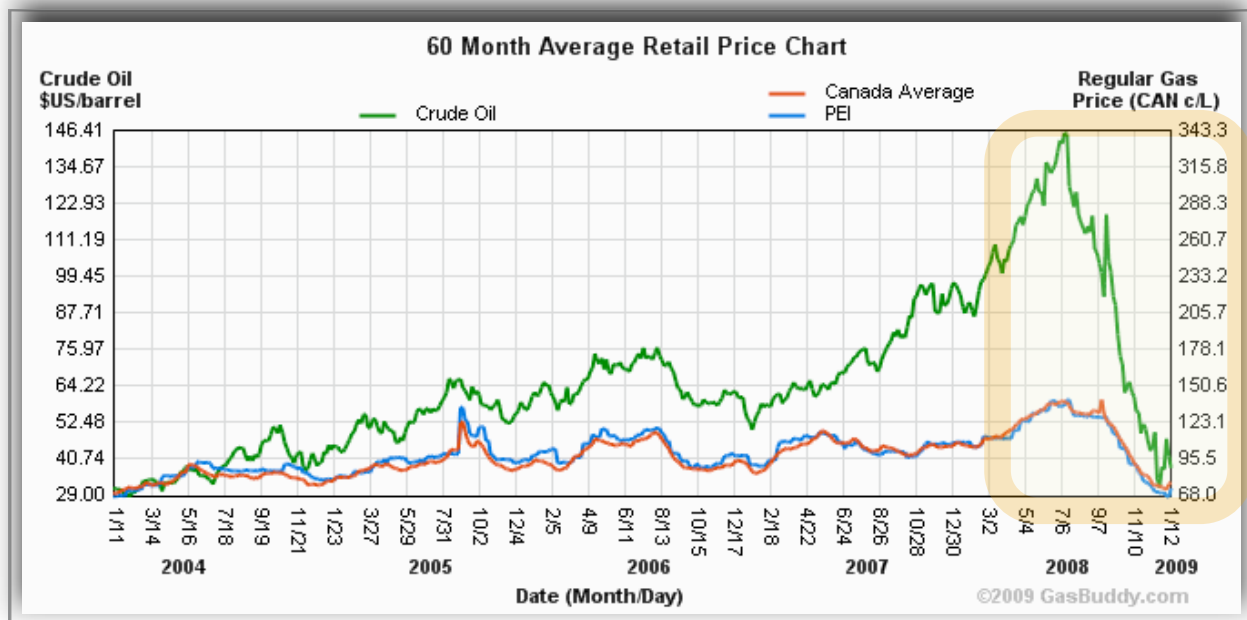
The Chamber offers comments and recommendation on the following specific issues:

4.1 Immigration -

As noted, immigration has increased dramatically in the past two years, a development which may auger well for the near future. But attraction is only the first phase of successful immigration. To rephrase an old adage - “the proof of the pudding is in the retention”. The Chamber is concerned that without specific supports, many of our recent immigrants will not become part of the local business community nor contribute long-term to the provincial economy. **We offer our assistance to address what needs to be done to more fully support integration.** The entrepreneurial contribution of immigrants is important to our future economic development.

4.2 Energy -

The roller coaster ride of petroleum prices is nigh impossible to understand - the experts did not predict it - and future projections are suspect.



If world oil prices remain in the US\$50 per barrel range, the much lower gas and oil prices will have a positive impact on local businesses. Although we would all like to see lower energy prices, it would be both near-sighted and lacking in good judgement to dismiss previously held concerns over medium-term energy supply and demand, energy efficiency and global warming.

The recently released 2009 World Energy Outlook drives this point home -

“We cannot let the financial and economic crisis delay the policy action that is urgently needed to ensure secure energy supplies and to curtail rising emissions of greenhouse gases. We must usher in a global energy revolution by improving energy efficiency and increasing the deployment of low-carbon energy,” Nobuo Tanaka, Executive Director of the International Energy Agency (IEA)

What does this mean for PEI? **The Chamber strongly urges the Provincial Government to remain proactive in energy matters.** In the Chamber’s May 2008 brief to the Minister of Energy, Environment and Forestry, we identified specific roles for the Provincial Government. It is worth repeating them here -

- Leader - provide direction in energy policy, programs and initiatives
- Educator - promote an energy conscious community by providing ongoing information regarding energy issues facing PEI, and the Government’s strategy, targets and progress
- Coordinator - bring parties together to solve/resolve issues and problems
- Stimulator - generate awareness and encourage actions consistent with the strategy
- Researcher - keep abreast, as best possible, of energy developments and communicate them to the Island business community and residents
- Funder - provide targeted assistance, but only in keeping with the energy strategy
- Demonstrator - undertake internal and external projects to demonstrate workable solutions
- Broker - arrange/negotiate solutions between Governments and between and among private sector investors
- Regulator - ensure standards
- Evaluator - establish benchmarks and measure progress towards all aspects of the energy strategy. The recently announced **Energy Strategy** and **Global Warming Strategy** demonstrates the government’s leadership in addressing these issues. While the documents appear to be comprehensive, particularly in providing situational background information, there can be no substitute for a detailed action plan. Statements of intention, while indicative of direction, do not substitute for sound business processes including benchmarks, milestones and completion dates. The business community needs to know how and when as well as what and why.

4.3 The Atlantic Gateway -

In October 2007, the Federal Government and the four Atlantic Provincial governments signed a Memorandum of Understanding to develop an Atlantic Gateway Strategy within 24 months. The Chamber appreciates having been asked for its views on implications for PEI.

While the 'buzz' surrounding the potential of an Atlantic Gateway has focussed on increased container shipping into the port of Halifax, the Chamber believes there may be potential benefits to the Province's business community in the 'soft', non-infrastructure aspects of the Gateway such as data management and software development (e.g. logistics management). Tie-ins to the international business offerings at the UPEI School of Business are a distinct possibility, as are training linkages with Holland College. There is also the potential for funding critical provincial transportation infrastructure through this initiative.

4.4 Operational Review -

We have previously noted that provincial government expenditures are likely to increase as a % of GDP. The Chamber is of the view that our economic future is dependent on a vibrant, entrepreneurial based business community. Thus, it follows that strengthening the local business base is in all our best interests.

In our last pre-budget submission, the Chamber stated that there is a significant opportunity for a transfer of certain 'commercial like' activities from government to the private sector, resulting in cost savings. We recognized at that time that additional analysis would be required to confirm financial and service benefits/savings. We encouraged the provincial government, as part of its ongoing operational review of programs and its budget process, to identify all 'commercial like' activities with the potential for transfer to the private sector. If savings can be achieved without any impact on current service levels, then transfer should be actively pursued.

The Chamber again makes this recommendation and offers any analytical assistance that would move this matter forward.

4.5 Transparency and Timeliness -

The Chamber believes that the Provincial Government could do more to make its financial operations more transparent and the release of financial information more timely. We stress that timely release of financial reporting is critical for effective use of the information and helps instill public confidence in government's ability to manage its resources.

The Chamber suggests that legislation be amended to ensure Audited Financial Statements are made public within three months following the end of the fiscal year.

The release of Fiscal Updates during the fiscal year is also an important instrument in the provision of timely financial information. However, **we suggest there be two Fiscal Updates, rather than one, and that they be released at the end of July and the end of November.** In addition, the 'in-year' fiscal updates should include detailed information on noteworthy changes in both revenues and program expenditures. This is of importance, given the volatility in the financial and credit markets.

4.6 Provincial Tax System -

The Chamber, in its pre-budget submission of last year, emphasized the need for a thorough review of the Province's tax system. We refer you back to that document, and again stress the need for such a review.

New Brunswick is in the midst of a comprehensive review of its tax system, which could have significant and positive consequences for business in that province, and significant and negative competitive consequences for businesses in the other Atlantic Provinces. For example, if implemented, the general corporate tax rate in NB could be one-half of PEI's. There is also a proposal to reduce non-residential property tax rates to boost competitiveness. This is a situation that must be monitored closely.

4.7 Grants to Municipalities -

The Chamber has a direct interest in the fiscal arrangements between the Provincial Government and PEI municipalities, particularly Charlottetown, Cornwall and Stratford. Recent decisions (grants versus tax credits, the freeze on assessments, administration fees and payment schedules) may cause an increased fiscal burden on these three municipalities. Of equal, if not more, importance is the uncertainty which has been introduced. Municipalities need to have a predictable provincial/municipal fiscal structure and a multi-year commitment to financial transfers. As unpredictability is a barrier to sound fiscal and spatial planning, the Chamber stresses that, ultimately, it is in the best interests of municipalities and the business community if this uncertainty is minimized.

5. Concluding Comments

Thank you for the opportunity to present our comments and suggestions. The preparation of the 2009/10 provincial budget will, no doubt, be a daunting task, but through consultation, good analyses, determination and perhaps some good luck, an appropriate balance will be struck.

The Chamber wishes you well in your deliberations.

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